U. S. SENATE
Republican Policy Committee
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April 15, 1996

More on the Starting (Minimum) Wage

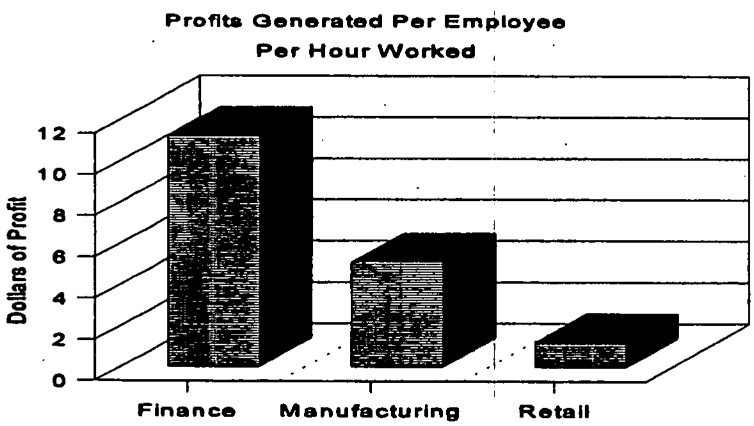
Higher Employment Costs Equal Lost Jobs, Lost Opportunities

"And why wouldn't you all be able to raise the price of pizza 2 percent?"
President Clinton responding to a question from Herman Cain, CEO of Godfather's Pizza in 1994, on how Godfather's Pizza, and other retailers should absorb the costs of the employer mandate contained in Clinton's health care proposal.

"Look, McDonald's — so they raise the price of a burger 10 cents? Burger King — they raise it 10 cents."
Former California State Democratic Party Chairman Bill Press, commentator on CNN's *Crossfire* on March 27, 1996, arguing in favor of a minimum wage increase, and submitting that all companies need to do is increase the price of their goods to cover the additional cost per employee of a minimum wage increase.

Raising the price of their products is not an option for many companies if they want to stay in business. This chart demonstrates the different profit margins generated by employees in different industries.

The Average Hourly Profit Per Employee
(What each employee's hourly work means in profits to each industry)



Retail (Includes Restaurants)	**$1.18**
Manufacturing	**$5.07**
Finance, Insurance, Real Estate	**$11.20**

Numbers Provided by the Employment Policies Institute

Higher Employment Costs Equal Fewer Employees, Not Higher Product Prices

A 90-cent increase in the cost of hiring and employing workers would effectively wipe out *76 percent of the profit margin* per employee for the retail (and restaurant) industry (that is \$1.18 - .90). President Clinton, Bill Press and others would have America believe that if it costs more to employ workers, industry can simply raise the price of their goods.

But, as Herman Cain, CEO of Godfather's Pizza pointed out to the President: *"Now your other point about having to pass it [increased employment costs] on to my customers in the competitive marketplace, it simply doesn't work that way, because the larger competitors have more staying power before they go bankrupt than a smaller competitor."*

At a \$1.18/hour profit per employee, the retail (and restaurant) industry would have to find some way to make up the cost of lost profits (76 percent) under Clinton's minimum wage proposal. The retail/restaurant industry is very competitive and some employers barely make a profit, even if they have a good year. Yet, this is the segment of the economy that creates millions of jobs for those who need work and training the most.

The First Lady's "Undercapitalized" Entrepreneurs, Who Do They Employ?

During the health care debate, Hillary Clinton demonstrated her apparent lack of understanding of basic economics when commenting on the increased cost of employment her employer mandate would inflict of small business when she stated: ***"I can't be responsible for every undercapitalized entrepreneur in America."***

✔ Perhaps the first lady meant by "undercapitalized," the very labor-intensive, low-profit businesses that create so many entry level jobs in America.

✔ Almost *3.5 million* Americans work in the retail (and restaurant) industry at or below \$5.15/hour, and of that group, almost *1 million are high school dropouts*, and over *1.5 million more are high school graduates*.
(See chart on page 5.)

Higher Employment Costs Have Real Consequences for Real Americans

The last time the federal government undertook to give "America a raise," the consequences were devastating for many Americans. An article published in *Regulation, The CATO Review of Business and Government*, Number 1, 1995, concluded that *"Quite simply, higher minimum wages go hand-in-hand with substantial declines in the employment of low-productivity workers . . ."* The authors used employment statistics from the period surrounding the 1990-91 minimum wage increase, and came to their conclusion *after controlling for recessionary changes in employment.*

- ✔ In the year following the minimum wage hike there were *15.6 percent fewer boys and men* in the 15-19 age group employed as compared to the year before the hike.
- ✔ In the year following the minimum wage hike there were *13.0 percent fewer girls and women* in the 15-19 age group employed as compared to the year before the hike.

Percentage Employed by Age Groups Before and After the 1990-91 Minimum Wage Hikes

Men Employed

Age Group	Percentage low wage①	Employed before hikes②	Employed after hikes③	Difference	Total Percentage reduction④
15-19	44.5	43.0	36.3	-6.7	-15.6
20-24	14.2	77.7	73.3	-4.4	-5.7
25-64	3.3	85.9	83.8	-2.1	-2.4
65-69	14.0	26.2	25.1	-1.1	-4.2

Women Employed

Age Group	Percentage low wage①	Employed before hikes②	Employed after hikes③	Difference	Total percentage reduction④
15-19	51.8	41.4	36.0	-5.4	-13.0
20-24	19.0	66.9	64.1	-2.8	-4.2
25-64	8.8	66.5	66.3	-0.2	-0.3
65-69	21.0	15.9	16.4	+0.5	+3.1

① Percentage paid low wages, i.e., less than or equal to $4.25/hour, between April 1, 1989 and March 31, 1990, prior to minimum wage hike.

② Percentage of total age group population employed between April 1, 1989 and March 31, 1990, prior to minimum wage hike.

③ Percentage of total age group population employed between April 1, 1991 and March 31, 1992, when the full minimum wage hike took effect.

④ Percentage reduction off the base of all individuals employed prior to minimum wage hike.

Entire chart taken from *Regulation, The CATO Review of Business and Government*, Number 1, 1995, p 48, based on U.S. Current Population Surveys conducted by the Bureau of Census

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Those Who Need Jobs the Most Get Hit the Hardest

- ✔ The retail and restaurant industries provide millions of Americans employment, and all the benefits that come with a job. Yet, those are the industries, because of their already marginal profit-per-employee, that can least afford to absorb the cost of Clinton's mandated wage increase.

- ✔ After the last minimum wage increase, those Americans trying to get their first step on the economic ladder were the hardest hit.

Percentage Decline in Employment after the 1990-91 Minimum Wage Hikes

Teenagers, 15-19	Men	Women	Blacks
Effect of Increasing Minimum from $3.35 to $3.80	-4.8	-6.6	-7.5
Effect of Increasing Minimum from $3.35 to $4.25	-7.3	-11.4	-10.0

High School Dropouts Adults 20-54	Men	Women	Blacks
Effect of Increasing Minimum from $3.35 to $3.80	-1.5	-2.5	-4.4
Effect of Increasing Minimum from $3.35 to $4.25	-3.1	-5.2	-6.7

Note: Change for selected low wage groups adjusted for changes in aggregate employment. Entire chart reprinted from *Regulation, The CATO Review of Business and Government*, Number 1, 1995, p 49, based on U.S. Current Population Surveys conducted by the Bureau of Census

- ✔ And, about those minimum wage earners, as Professor David McPherson of Florida State University has pointed out: *"A year after having been observed working at the minimum wage of $4.25, the average wage for these workers stands at $6.08 an hour."* They can never reach $5.15, much less $6.08, without the opportunity to enter the job market. *Clinton's proposal would make it against the law* to hold a job that pays less than $5.15 regardless of how much the job is worth.

Why Not Low Prices For Food, Clothing, and Shelter?

Since President Clinton would have America believe, Uncle Sam can raise America's wages without job loss and dislocation, it is reasonable to ask, *"If it is possible to mandate high wages, then why not also have low prices for food, shelter, clothing, and everything else that is good?"* (Professors Deere, Murphy, and Welch, authors of the CATO article)

Workers Affected by Clinton's Mandated Wage Increase

Here are employment numbers for different industries whose employees make at or below $5.15/hour, Clinton's proposed minimum wage.

Retail Trade (includes restaurants) Wage <= $5.15/hour	
Ages 16-24	1,482,778
High Sch. Drop Outs	520,937
High Sch. Grads	632,250
Some College	299,782
College Grads	9,809
Ages 25-29	438,993
High Sch. Drop Outs	84,112
High Sch. Grads	199,029
Some College	125,364
College Grads	30,489
Ages 30 +	1,519,392
High Sch. Drop Outs	372,449
High Sch. Grads	706,592
Some College	329,824
College Grads	110,526
Total Employees	**3,441,163**

Durable and Nondurable Goods Manufacturing Wage <= $5.15/hour	
Ages 16-24	278,365
High Sch. Drop Outs	102,883
High Sch. Grads	133,571
Some College	37,622
College Grads	4,289
Ages 25-29	144,208
High Sch. Drop Outs	53,657
High Sch. Grads	60,741
Some College	25,889
College Grads	3,923
Ages 30 +	649,310
High Sch. Drop Outs	279,592
High Sch. Grads	233,802
Some College	100,752
College Grads	35,128
Total Employees	**1,071,883**

Finance, Insurance and Real Estate Wage <= $5.15/hour	
Ages 16-24	60,117
High Sch. Drop Outs	12,869
High Sch. Grads	21,076
Some College	21,893
College Grads	4,279
Ages 25-29	42,120
High Sch. Drop Outs	2,122
High Sch. Grads	15,984
Some College	12,602
College Grads	11,413
Ages 30 +	214,976
High Sch. Drop Outs	34,163
High Sch. Grads	85,965
Some College	60,163
College Grads	34,686
Total Employees	**317,213**

Numbers Provided by the Employment Polices Institute

All numbers used in this paper are based on U.S. Current Population Surveys.

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